

**BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA**

DOCKET NO. 2018-318-E

In the Matter of:)	
)	REBUTTAL TESTIMONY OF
Application of Duke Energy Progress, LLC)	RENEE METZLER
for Adjustments in Electric Rate Schedules)	FOR DUKE ENERGY
and Tariffs and Request for Accounting Order)	PROGRESS, LLC

I. INTRODUCTION

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Renee Metzler, and my business address is 550 South Tryon Street,
3 Charlotte, North Carolina.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am employed by Duke Energy Business Services LLC (“DEBS”), as Managing
6 Director – Retirement and Health and Welfare. DEBS provides various
7 administrative and other services to Duke Energy Progress, LLC (“DE Progress”
8 or the “Company”) and other affiliated companies of Duke Energy Corporation
9 (“Duke Energy”).

10 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**
11 **PROFESSIONAL EXPERIENCE.**

12 A. I graduated from the University of Mary Washington with a Bachelor of Arts degree
13 in Spanish Language and Literature. I also hold a Professional in Human Resources
14 certification. I have 29 years of human resources experience, primarily working
15 with benefits and compensation programs. I joined Piedmont Natural Gas
16 Company, Inc. (“Piedmont”) in 2001 and have held various leadership positions in
17 human resources. Most recently, I was the Managing Director – Total Rewards at
18 Piedmont with responsibility for broad-based compensation, executive
19 compensation, retirement benefits, health and welfare benefits, the human
20 resources management system (“HRMS”) and payroll. I have served in a leadership
21 role on several projects, including the redesign of Piedmont’s retirement (pension,
22 401(k) and retiree medical) program, the design and implementation of a consumer-

1 driven health plan with a Health Savings Account, the implementation of the
2 Workday HRMS system, the design and implementation of Piedmont's wellness
3 program, the redesign of Piedmont's long-term incentive plan and the integration
4 of Piedmont employees into the Duke Energy compensation and benefits programs.
5 I became an employee of DEBS in October 2016 when Piedmont was acquired by
6 Duke Energy.

7 **Q. PLEASE DESCRIBE YOUR DUTIES AS MANAGING DIRECTOR –**
8 **RETIREMENT AND HEALTH AND WELFARE.**

9 A. I am responsible for all health and welfare and retirement benefits for Duke Energy,
10 including all of Duke Energy's affiliated regulated and non-regulated companies,
11 including DE Progress. Areas of responsibility include: management of key vendor
12 relationships, benefit plan design and strategy, administration and compliance.

13 **Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY IN THIS**
14 **PROCEEDING?**

15 A. No, I did not.

16 **II. PURPOSE AND SCOPE**

17 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

18 A. The purpose of my rebuttal testimony is to respond to portions of the testimony
19 filed by ORS witness Kelvin L. Major and to certain proposed ORS non-allowable
20 expenses. Witness Major recommends that a portion of incentive compensation, in
21 the amount of \$4,172,000 should be disallowed. In my rebuttal testimony, I
22 demonstrate that Witness Major's proposed adjustment is inappropriate and should
23 be rejected by the Commission.

1 In addition, ORS, through their audit, proposed disallowance for certain
2 items including exceptional contribution awards, lump sum merit increases, service
3 and safety awards, and the lineman's rodeo. In my rebuttal, I demonstrate that the
4 proposed disallowance of these items is inappropriate and should be rejected by the
5 Commission.

6 **III. CUSTOMERS BENEFIT FROM MARKET-DRIVEN TOTAL**
7 **COMPENSATION PROGRAMS**

8 **Q. WHAT IS THE COMPANY'S COMPENSATION PHILOSOPHY?**

9 A. Duke Energy's overall compensation philosophy is to target total compensation of
10 base pay and incentives, including both short- and long-term, at the median of the
11 market when compared to peer companies, with the opportunity to earn more or
12 less relative to the market median based on actual corporate performance.
13 Therefore, it is not appropriate to consider the various components of total
14 compensation in isolation, as does Witness Major. Doing so inappropriately
15 ignores the Company's obligation to be responsive to the market for talent and
16 assure the competitiveness of the total compensation package, consisting of base
17 salary, cash based incentives, long-term incentive compensation, retirement and
18 other benefits.

19 **Q. PLEASE PROVIDE AN OVERVIEW OF THE COMPENSATION**
20 **PROGRAMS PROVIDED BY DUKE ENERGY.**

21 A. Duke Energy's compensation programs consist of a base pay component and
22 incentive pay components that together provide a market-competitive total
23 compensation package for all employees. The base pay component is a set amount,
24 reviewed by management at least annually, and established at a level that: (1)

1 provides compensation based on the nature and responsibilities of the employee's
2 position; and (2) is fair relative to the pay for other similarly-situated positions in
3 the organization. The short-term incentive ("STI") pay component is variable based
4 on performance and is at risk to the employees. All employees have STI as a
5 component of their total pay. Incentive pay is linked to the accomplishment of
6 specific goals established in advance for the individual employee, his or her
7 business unit, one or more of the Duke Energy companies and/or Duke Energy. The
8 purpose of carving out a portion of employees' total compensation and delivering
9 it through variable incentive pay is: (1) to encourage employees to accomplish
10 specific objectives intended to ensure safe, reliable and economical utility service
11 to our customers; (2) to ensure their business unit's and Duke Energy's overall
12 success; and (3) to incorporate a component of any compensation package that is
13 competitive based on the market. The long-term incentive ("LTI") plans round out
14 a competitive total compensation package for certain employees in leadership
15 positions. The purpose of carving out a portion of total compensation and
16 delivering it through LTI programs is to reflect the market for human capital, which
17 in turn is necessary to attract and retain high-caliber leaders needed to ensure safe,
18 reliable and economical utility service to our customers. The total compensation
19 concept is depicted in Figures 1 and 2, below.

Figure 1

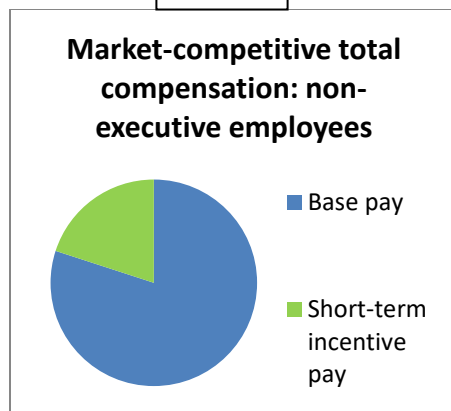
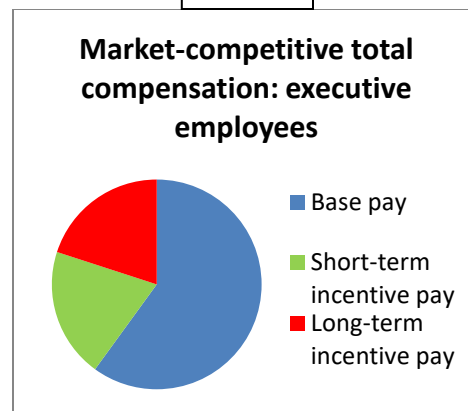


Figure 2



1 **Q. DOES A COMPETITIVE TOTAL COMPENSATION PACKAGE FOR**
 2 **EMPLOYEES BENEFIT THE COMPANY'S RETAIL CUSTOMERS?**

3 A. Yes. Our employees deliver critical services to our customers every day. The
 4 energy industry is a knowledge and experience-intensive industry where the tenure
 5 of employees matters. For example, we need to attract, develop and retain—over
 6 the long term—the engineering professionals that design, help build and operate
 7 our plants at a reasonable cost, just like we need to attract, develop and retain our
 8 power delivery professionals charged with maintaining and improving our
 9 infrastructure necessary to keep the lights on at a reasonable cost. The skills needed
 10 for employees to render safe, reliable and high-quality utility service take several
 11 years to develop. Line Technicians are highly skilled positions that require
 12 experience and knowledge that is acquired over several years. If we were to lose
 13 such employees, we would incur additional costs to train replacements for these
 14 positions, while experiencing additional risk with regard to reliability issues.
 15 Moreover, the industry is an aging industry. If we do not provide our talented
 16 employees competitive compensation consistent with our industry, then other

1 utilities will hire our employees. Avoiding this circumstance becomes especially
2 important as more experienced employees retire.

3 Finally, incenting a focus on long-term sustainable company performance
4 provides a benefit to customers, as a financially strong company will have greater
5 access to capital at a lower cost, which in turn benefits customers through a lower
6 cost structure. In addition, the introduction of long-term incentive pay as a
7 component of overall compensation ensures our leadership is focused on the long
8 term, and not overly focused on the short term.

9 **Q. DO EARNINGS PER SHARE AND TOTAL SHAREHOLDER RETURN**
10 **METRICS AS PART OF INCENTIVE PAY BENEFIT CUSTOMERS?**

11 A. Yes, absolutely. The measures of our corporate incentive program are designed to
12 drive results. Earnings Per Share (“EPS”) is a performance measure included in
13 the STI opportunity for all employees. To achieve strong incentive results, we must
14 operate reliably, we must operate safely, we must deliver strong customer service,
15 we must control our costs and we must grow our company. Including a goal for
16 financial performance in our incentive program ensures that employees pursue cost-
17 effective ways to deliver these measures. Using this balanced scorecard approach
18 benefits customers by delivering critical services at competitive rates. EPS and
19 Total Shareholder Return (“TSR”) measure overall financial performance, and
20 overall financial performance in turn can reflect how employees take action on a
21 routine basis to support the efficient delivery of safe and reliable energy
22 to customers. In addition, finding sustainable cost savings is an important part of
23 achieving our financial targets, and those sustainable cost savings benefit our

1 customers. Incenting employees to work diligently to ensure costs are responsibly
2 and prudently incurred is critical. These actions provide benefits to customers
3 through competitive rates.

4 **Q. SHOULD THE COMMISSION DISALLOW ANY PORTION OF THE**
5 **TOTAL COMPENSATION FOR EMPLOYEES IF THAT COMPENSATION**
6 **IS COMPETITIVE WITH THE MARKET?**

7 A. No. Disallowing a portion of our compensation program would render the
8 Company's compensation uncompetitive with the market, which would result in
9 the inability to attract the talent this Company needs to run a safe and reliable
10 electric system. From the perspective of prudently and efficiently managing the
11 Company's retail electric business to the benefit of consumers and the public, there
12 is no reasonable basis to deny employees market-based compensation. The
13 EPS/TSR metrics, whether a part of employees' STI or LTI compensation,
14 encourage eligible employees to reduce expense, operate efficiently and conserve
15 financial resources, all of which benefit customers by keeping rates competitive.
16 To eliminate any portion of incentive compensation would decrease employees'
17 total compensation to less than competitive levels, compelling the Company to
18 consider an offset to this reduction by an increase to its fixed costs through base
19 pay adjustments or face severe workforce challenges. This is shown by Figures 3
20 and 4, below – removing either of the cross-hatched pie pieces, representing the
21 portions of compensation that the ORS wishes to exclude from rates, would leave
22 the compensation at a below-median level.

Figure 3

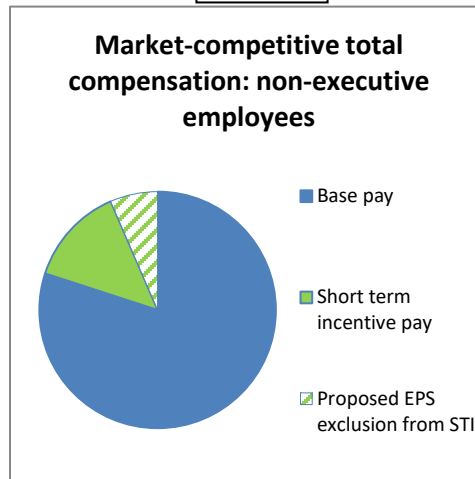
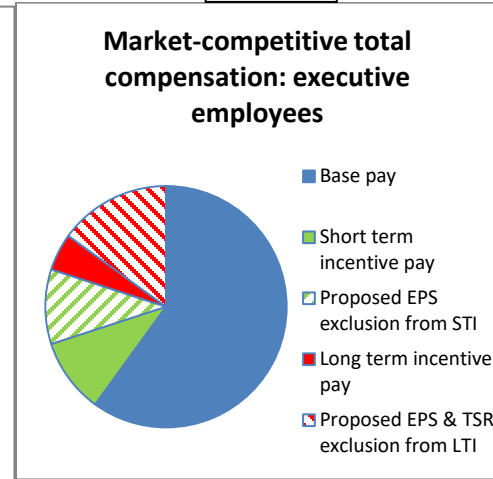


Figure 4



1 **Q. WHAT WOULD BE THE IMPLICATIONS TO CUSTOMERS IF THE**
2 **TOTAL COMPENSATION LEVELS WERE ALLOWED TO FALL BELOW**
3 **MARKET-COMPETITIVE LEVELS?**

4 A. Allowing total compensation to fall below market-competitive levels would have
5 substantial negative implications for the cost of service to customers. Given the
6 length of time necessary to fully train employees to safely perform all aspects of
7 their jobs, allowing the turnover rate to escalate due to lowering the competitive
8 levels of pay and benefits would be imprudent. Many craft positions require
9 lengthy apprenticeships to learn the skills needed to perform work independently
10 and safely. The expense incurred to hire and train new employees and the loss of
11 productivity realized through high turnover rates would negatively affect the ability
12 of the Company to provide safe and reliable service at a reasonable cost. This is
13 also true for leadership positions. Duke Energy invests in developing highly
14 effective leaders who carry out the organization's mission and inspire employees
15 to work together to achieve results the right way. Paying less than competitive

1 levels of compensation would put the Company at risk of losing these valuable
2 leaders to other companies and potentially having to pay more to attract the same
3 level of leadership talent externally. The financial cost of turnover and negative
4 implications from lost productivity, hiring, training and job vacancy can put a
5 significant level of productivity and financial value at risk to the Company.
6 Incentive pay is similar to the other costs related to producing and distributing
7 electricity. It is a necessary cost to provide customers safe and reliable service. In
8 the competitive market for talent, employees consider total rewards, including base
9 pay, incentive pay and benefits, as a key determinant in deciding whether to work
10 for a particular employer. The target incentive compensation provided by Duke
11 Energy is necessary to achieve market-competitive compensation and, thus, is a
12 reasonable and appropriate cost of doing business that should not be eliminated.

13 In my opinion, the Company's entire incentive pay expense is reasonable
14 and necessary to attract and retain high quality employees with the critical skills
15 necessary to provide safe, efficient and reliable service to customers, and, therefore,
16 it should be recoverable in its entirety.

17 **IV. CONCLUSIONS REGARDING ORS' PROPOSED COMPENSATION**
18 **ADJUSTMENT**

19 **Q. PLEASE DESCRIBE ORS WITNESS MAJOR'S PROPOSED**
20 **ADJUSTMENT RELATING TO COMPENSATION.**

21 A. The incentive compensation Witness Major seeks to disallow (Adjustment 22) is
22 based upon the stance that "50% of the incentives are attributable to Company
23 earnings." In reality, for all employees other than select Executive Leadership, only
24 30% of STI metrics are attributable to earnings per share.

The table below outlines the STI metrics for all employees and for the Executive Leadership Team (“ELT”).

TABLE 1: SUMMARY 2017 STI PLAN

	ELT Weight	Non-ELT Weight	Payout range
EPS	50%	30%	0-200%
Operational Excellence	20%	15%	0-150%
CSAT (customer satisfaction)	10%	5%	0-150%
Team	N/A	50%	0-150%
Individual	20%	N/A	0-150%
Safety	± 5%	+ 5%	N/A

As I have demonstrated in my testimony, employee compensation and incentives tied to metrics such as EPS and TSR benefit customers, because those metrics reflect how employees’ contributions translate into overall financial performance. EPS, for example, is a measure of the Company’s financial performance, and that performance is reflective of how certain goals – safety, individual performance, team performance and customer satisfaction (all of which are components of incentive pay) – are met in a cost-effective way. Divorcing employee performance from such an important measure of a rate regulated company’s overall health makes no sense and is counterproductive.

The incentive components of employee compensation incent employees to be cost conscious, to work efficiently and to find the least cost solutions to issues and problems posed every day, which in turn reduces operations and maintenance (“O&M”) costs. This benefits customers by rates being established on a lower

1 O&M cost than what they would otherwise be. In short, incentive compensation
2 tied to these readily measurable metrics incent employees to help DE Progress
3 deliver safe, reliable and competitively priced energy to its customers, every day,
4 day in and day out. For the Commission to abrogate these incentives would be a
5 severe detriment to customers, not a benefit to customers, and would result in
6 disallowance of a prudently incurred cost.

7 Finally, in order to attract a well-qualified and well-led workforce, the
8 Company must compete in the marketplace to obtain the services of these
9 employees. No witness in this proceeding, including Witness Major, challenges the
10 reasonableness of the level of compensation expenses reflected in the rate-making
11 test period for the Company. No one has challenged that the compensation and
12 benefit programs provided to employees of Duke Energy, including those who work
13 on behalf of DE Progress, are necessary and critical in their entirety for attracting,
14 engaging, retaining and directing the efforts of employees with the skills and
15 experience necessary to safely, efficiently and effectively provide electric services
16 to DE Progress customers. Instead, Witness Major wants to have the benefit of the
17 Company employing qualified and well-managed employees productively engaged
18 in providing safe, reliable, and affordable electric service to our customers today
19 and tomorrow, but not to reflect the business share of that cost of service.

V. CUSTOMERS BENEFIT FROM INCREASED EMPLOYEE ENGAGEMENT

Q. PLEASE DESCRIBE THE EMPLOYEE PROGRAMS THAT ORS SEEKS TO DISALLOW.

A. The ORS has recommended a disallowance of expenses related to employee lump sum merit payments, exceptional contribution awards (spot bonuses), service and safety awards, the lineman's rodeo, and various miscellaneous costs that recognize our employees.

Q. DO YOU AGREE WITH THE ORS RECOMMENDATION TO DISALLOW THESE EXPENSES?

A. No, I do not. As I will explain in my testimony, these are reasonable and prudent expenses that seek to enhance employee engagement, and in turn lead to higher levels of customer service, safety and employee retention.

Q. DO COMPANY PROGRAMS DESIGNED TO INCREASE EMPLOYEE ENGAGEMENT BENEFIT CUSTOMERS?

A. Yes, they do. I have outlined below the programs recommended for disallowance, and the benefit of each program to customers.

1) Spot Bonuses (Exceptional Contribution Awards): Exceptional Contribution Awards (“ECAs”) are an important aspect of our overall Total Rewards program and are used to provide timely recognition to employees who make a significant contribution to business operations. ECAs are typically used to reward discretionary effort that results in an exceptional customer experience, the achievement of a significant operational milestone or a significant process improvement.

1 2) Lump sum merit payments: Lump sum merit payments are used as a cost
2 management technique to address long-tenured employees who are approaching the
3 higher end of their market competitive pay range. This technique reduces the
4 compounding impact of annual in-base merit increases and reduces labor costs
5 which in effect reduces cost for our customers. This technique enables us to keep
6 employees engaged and keep their critical skills.

7 3) Service Awards: In many cases, it takes years to develop the critical skills and
8 knowledge to provide safe, reliable service to our customers. Retention of these
9 critical skills is important to providing quality customer service, so rewarding
10 employees for reaching service milestones is reasonable and prudent.

11 4) Safety Awards: Celebrating successful completion of critical safety milestones
12 is an important part of providing a safety culture for our employees and the
13 communities we serve.

14 5) Lineman's Rodeo: This event drives a culture of teamwork. Competitors who
15 participate in the rodeos are tested on job-related skills, while being judged on
16 speed, agility, technique and safety procedures. Together, teams and individual
17 competitors put in approximately 30-40 hours of additional training per competitor
18 prior to the rodeo. Our linemen participate in these rodeo competitions to
19 continually refine their skills, which in turn benefits our customers with faster,
20 safer, more reliable service. In addition, this is an important tool for recruitment,
21 as we partner with local colleges and lineman schools, where students attend rodeos
22 and volunteer to gain exposure around the craft. We have experienced challenges
23 in our ability to hire experienced line workers, and the rodeo serves as a valuable

1 tool for both attraction of new line workers and engagement of current workers. It
2 takes 6 years for a newly hired line worker apprentice to achieve journey status.
3 With an aging workforce, this event serves as an important component of building
4 our talent pipeline for our future workforce needs.

5 6) Miscellaneous costs to recognize and reward the Company's employees who
6 serve our customers: The ORS has removed expenses relating to a team lunch,
7 decorations for an office celebration, and coffee supplies in the office, among other
8 things. These costs are not unusual, extravagant or excessive, but instead are a
9 necessary part of creating and fostering a supportive corporate work environment.

10 **Q. SHOULD THE COMMISSION DISALLOW ANY PORTION OF**
11 **EXPENSES RELATED TO THESE EMPLOYEE PROGRAMS?**

12 A. No. As discussed in my testimony, all of these programs enhance and reinforce
13 employee engagement and/or reduce overall costs. Business units with more
14 engaged employees have lower levels of turnover and absenteeism and higher
15 levels of productivity and customer satisfaction. Using employee engagement
16 programs as a means of retaining critical skills benefits customers through higher
17 service levels and lower turnover costs. Experienced, engaged employees that are
18 incentivized to remain with the Company and work in a safe manner while
19 emphasizing high service levels benefit our customers.

20 **Q. DOES THIS CONCLUDE YOUR PRE-FILED REBUTTAL TESTIMONY?**

21 A. Yes, it does.